

Interim Report January – September 2019

Summary of Results

Q3 2019 in comparison with Q2 2019

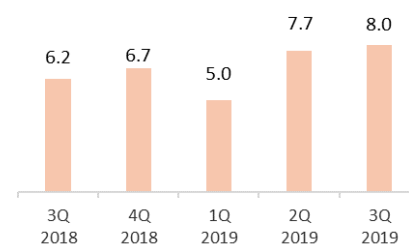
- Net profit EUR 8.0 m (EUR 7.7 m), of which EUR 7.3 m (EUR 7.1 m) is attributable to owners of the parent
- Earnings per share EUR 0.27 (EUR 0.27)
- Net income EUR 18.1 m (EUR 18.4 m)
- Operating expenses EUR 9.4 m (EUR 9.4 m)
- Loan provisions EUR 0.02 m (EUR 0.7 m)
- Income tax expenses EUR 0.7 m (EUR 0.7 m)
- Return on equity 16.4% (18.1%)
- Capital adequacy 20.0% (19.2%)

Q3 2019 in comparison with Q3 2018*

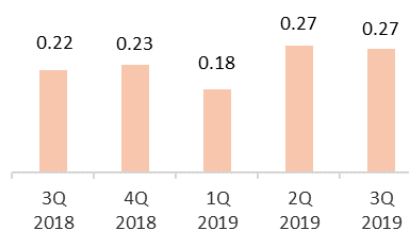
- Net profit EUR 8.0 m (EUR 6.2 m), of which EUR 7.3 m (EUR 5.7 m) is attributable to owners of the parent
- Earnings per share EUR 0.27 (EUR 0.22)
- Net income EUR 18.1 m (EUR 15.7 m)
- Operating expenses EUR 9.4 m (EUR 7.9 m)
- Loan provisions EUR 0.02 m (EUR 1.9 m)
- Income tax expenses EUR 0.7 m (EUR 0.5 m)
- Return on equity 16.4% (15.9%)
- Capital adequacy 20.0% (18.3%)

Earnings per share and return on equity ratios are based on the profit attributed to the shareholders and equity of AS LHV Group and do not include non-controlling interest.

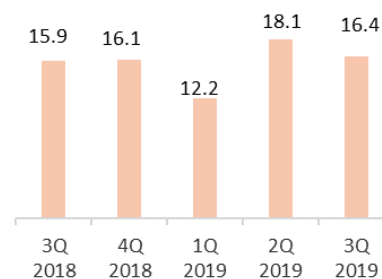
Profit by quarters



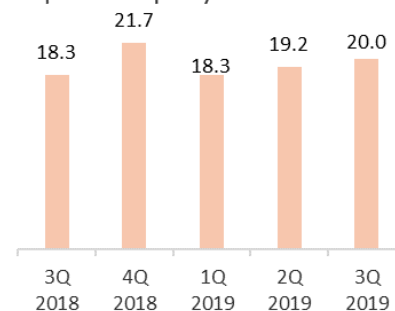
Basic earnings per share



Return on equity



Capital adequacy



Managing Director's Statement

Dear investor in LHV,

LHV did not rest this summer. By adding a share issue in September to the two bond issues from June, we raised a total of EUR 65 million of capital within four months, with investor subscriptions totalling EUR 141 million. Hopefully, this demonstrates that investors believe in our growth and trust our activities. Thank you for that!

For LHV, Q3 turned out to be busy in every way and strong in terms of results. Euromoney – the leading international business magazine – declared LHV the best bank in Estonia for the second year in a row. We view this as a great acknowledgement, because at LHV we work each day to deliver the best, quickest, most efficient and most professional service to our clients.

In co-operation with Luminor, we increased LHV's ATM network in Q3 by a factor of five, to 125 ATMs. Free cash withdrawal was added in Võru, Rapla, Haapsalu, Paide, Kohtla-Järve, Kiviõli, Jõhvi, Saku, Saue, Tabasalu, and Maardu. We are constantly updating our Mobile Bank. During the summer we also introduced the account opening feature in the app for a new retail client, as well as card ordering and investment in securities. After the end of quarter we added the ability to apply for the loans.

Our Q3 financial results were also very good. A record number of 9600 clients joined the bank. Loan volumes grew during the quarter by EUR 104 million and deposits by EUR 451 million. Deposit growth is related to the deposits being involved via deposit platforms, which we are using to purchase Danske Bank's private loan portfolio.

Even though the Danske transaction will be concluded at the end of November, we wanted to attain certainty in terms of financing earlier. In the case of quick and high volume deposits we also need to cover costs that are higher than usual, with these having been reflected under interest expenses in recent months. As we are already including most of the current expenses related to the Danske transaction in our income statement, then the interest income that shall be added from the last week of November shall be counted as considerable additional income. The deposit cost related to the transaction shall remain high until the middle of next year, when we will be looking to replace these deposits with pledges that have significantly lower costs.

The volume of funds managed by Varahaldus increased in Q3 by EUR 34 million. September was the first month that lower fixed management fees for pension funds – confirmed at the end of last year with a regulation – entered into force; although, in the event

of a strong rate of return, the funds are able to earn a success fee. Considering the complexity of estimating the benchmark index and the short-term rate of return that form the basis for the success fee, we have not taken the success fee into account in our financial plan until the end of this year, which means that the monthly gains of Varahaldus shall decrease by about EUR 400,000. In September, this effect was reduced due to the bank's loan discounts decreasing. We have already accounted for the success fee in our estimates for the coming years.

To reach the higher forecasts published in July and to purchase Danske Bank's private loans portfolio, we finished the previously mentioned share issue in September, in which we publicly issued 2,200,000 new shares in the form of pre-emptive subscription rights. A total of 3789 investors participated in the subscription, subscribing to shares in the total amount of EUR 32.4 million.

Considering our activities this year, LHV's growth has been impressive and even quickened in terms of volumes. Therefore, in July, we had the courage to announce that our hopes for the future have increased. This year, we have actively grown our business and several impacts have been added that we need to consider in the long term. We greatly increased our expectations for loan volumes: compared to the current forecast we increased it by EUR 570 million at the end of 2019 and EUR 873 million at the end of 2023. We increased our deposits by the end of 2019 by EUR 742 million and by the end of 2023 by EUR 1.13 billion.

According to the updated forecast, LHV Group shall earn a net profit of EUR 25.6 million this year, which is EUR 1.8 million less than the previous forecast. Compared to the previous forecast, the higher costs are related to the one-time costs of purchasing Danske Bank's private customer loan portfolio and the impacts of more expensive temporary financing, included via deposit platforms, to complete that transaction. However, we outperformed the income forecast for the end of Q3 by EUR 1.6 million; this better-than-expected outcome has been mainly achieved due to lower discounts and greater interest income of loans.

Business environment

LHV's growth trends are supported by the Estonian business environment. Economic growth has been solid, depending largely on the economies of our neighbouring countries. Internal policy risks are managed by a balanced budget, low public sector debt and a positive foreign balance, with the main source of tension being the availability of labour. Also, the credit market has remained strong. All of the main credit products, incl. corporate loans and home loans, are growing. The financial health of

households is on the strong side, the loan-to-deposit ratio is improving.

In a broader perspective, the financial sectors and capital markets are being influenced by the monetary policy of the European Central Bank and further decreases in interest rates. Negative interest rates are no longer a separate paradigm, where numbers below zero are considered to be outside of the pattern. Zero is more like one number out of many and interest rates could stay on either side of it. The goal of the central banks is to reduce the value of unused money at a controlled pace and, if this proves unsuccessful through inflation, the same result could be achieved by using interest rates. However, this requires that the interest rates reach the final depositors on whose accounts this money has actually been parked. In Europe, the first examples have appeared of banks that have passed on negative interest rates to certain client groups. LHV has priced on the expenses of funds held at the European Central Bank only to our financial mediator clients with a very high deposit balance, who are serviced by our United Kingdom branch, with no such changes having been planned for Estonian retail clients.

Against the background of a stable economic environment and strong credit market, the sector is increasingly being influenced by various regulatory issues, of which the intention to demolish the second pillar is one of the most relevant. There are still too many loose ends to make any final assessments, although market participants are changing their investment strategies and are in the process of reducing the number of illiquid Estonian investments. LHV is trying to find the middle ground, in which we could continue making Estonian investments with a higher than expected rate of return, but where we would also have the required liquidity needed for the somewhat unpredictable fluctuation of fund volumes.

Financial results

The group's consolidated profit for Q3 2019 was EUR 8.0 million, increasing by EUR 300,000 when compared to the previous quarter, and growing by EUR 1.8 million when compared to Q3 of the previous year.

The return on equity belonging to LHV's shareholders was 16.4% in Q3 2019, having decreased by approx. 1.7 percentage points in comparison with Q2 2019 (18.1%).

The group's consolidated net loan portfolio grew by EUR 104 million during the quarter (EUR 127 million in Q2 2019) and the

consolidated deposits increased by EUR 451 million (compared to growth of EUR 516 million in Q2 2019). At the same time, the deposits related to payment intermediaries increased by EUR 184 million (growth of EUR 8 million in Q2 2019).

The group's own funds increased by EUR 32 million when compared to the previous quarter and risk-weighted assets increased by EUR 114 million; the Tier 1 and total capital adequacy ratios at the end of the quarter were 15.4% and 20.0%, respectively. The change in own funds was affected by the involvement of capital from Q2 2019 in the Group's own funds and share issue.

In Q3 the bank's profit at the consolidated level was EUR 6.4 million, which is EUR 500,000 higher than the previous quarter (EUR 5.9 million in Q2 2019). Over the quarter, the number of clients increased by nearly 9600 (in Q2 2019, by 8600), causing the total number of the bank's clients to exceed the threshold of 189,000.

In Q3, the bank's loan portfolio grew by EUR 104 million (in Q2 of 2019, EUR 127 million), nearing EUR 1.222 billion. Among the loans, entrepreneurship loans grew the most. The cost of the loan allowance in Q3 was close to zero, which is EUR 700,000 less than in the previous quarter.

The deposits of the bank's clients increased by EUR 454 million in Q3, of which the deposits of payment intermediaries grew by EUR 184 million and the deposits of the remaining clients by EUR 270 million. By the end of Q3, the total deposit volume reached EUR 2.544 billion.

In Q3, Varahaldus earned a profit of EUR 1.9 million (in Q2 2019, EUR 2.1 million). The fee and commission income of Varahaldus decreased by EUR 300,000, when compared to the previous quarter, to EUR 3.3 million. The operating expenses of Varahaldus remained at the same level as the previous quarter.

The total volume of funds managed by LHV grew by EUR 34 million over the quarter (by EUR 36 million in Q2 2019). The number of active clients of the second pillar decreased by 1134 over the quarter (by 72 in Q2 2019). By the end of the quarter, the number of active second pillar clients exceeded 176,000.

Madis Toomsalu

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Financial Summary

Business volumes EUR million	Q3 2019	Q2 2019	Quarter over quarter	Q3 2018	Year over year			
Loan portfolio	1 222.1	1 117.9	9%	812.0	51%			
Financial investments	124.0	119.5	4%	48.8	154%			
Deposits of customers	2 534.7	2 083.4	22%	1 637.6	55%			
incl. deposits of financial intermediates	419.0	235.1	78%	511.4	-18%			
Equity (including minority interest)	199.0	164.5	21%	150.6	32%			
Equity (owners' share)	194.5	160.7	21%	147.2	32%			
Volume of funds managed	1 327.7	1 293.4	3%	1 203.8	10%			
Assets managed by bank	1 334.1	1 161.7	15%	1 323.4	1%			
Income statement EUR million	Q3 2019	Q2 2019	Quarter over quarter	Q3 2018	Year over year	9M 2019	9M 2018*	Year over year
Net interest income	11.55	11.63	-1%	9.45	22%	34.13	27.86	23%
Net fee and commission income	6.41	6.61	-3%	6.15	4%	19.25	18.96	2%
Other financial income	0.12	0.20	-40%	0.09	33%	0.50	0.34	47%
Total net operating income	18.08	18.44	-2%	15.69	15%	53.88	47.16	14%
Other income	0.03	0.02	50%	0.77	-96%	0.03	0.77	-96%
Operating expenses	-9.40	-9.40	0%	-7.93	19%	-27.91	-23.37	19%
Loan losses	-0.02	-0.70	-97%	-1.86	-99%	-1.67	-4.34	-62%
Income tax expenses	-0.70	-0.70	0%	-0.50	40%	-3.67	-3.07	20%
Discontinued operations	0.00	0.00	NA	0.00	NA	0.00	3.32	-100%
Net profit	7.99	7.66	4%	6.17	29%	20.66	20.47	1%
Including attributable to owners of the parent	7.29	7.10	3%	5.72	27%	19.08	19.20	-1%
Ratios EUR million	Q3 2019	Q2 2019	Quarter over quarter	Q3 2018	Year over year	9M 2019	9M 2018*	Year over year
Average equity (attributable to owners of the parent)	177.6	157.0	20.6	143.8	33.8	174.1	133.6	40.5
Return on equity (ROE), %	16.4	18.1	-1.7	15.9	0.5	14.6	19.15	-4.55
Return on assets (ROA), %	1.2	1.5	-0.3	1.4	-0.2	1.21	1.50	-0.29
Interest-bearing assets, average								
Net interest margin (NIM) %	2 576.0	2 059.8	516.2	1 767.6	805.7	2 232.0	1 789.4	442.0
Price spread (SPREAD) %	1.80	2.26	-0.46	2.14	-0.34	1.96	2.08	-0.12
Cost/income ratio %	1.75	2.22	-0.47	2.10	-0.40	2.00	1.99	0.01
Profit attributable to owners before income tax	7.99	7.8	0.19	6.3	1.7	22.5	22.2	0.3

Explanations to ratios (quarterly ratios have been expressed on an annualised basis)

Average equity (attributable to owners of the parent) = (equity as at the end of the reporting period + equity as at the end of the previous reporting period) / 2

Return on equity (ROE) = net profit for the quarter (share of owners of the parent) / average equity (attributable to owners of the parent) *100

Return on assets (ROA) = net profit for the quarter (share of owners of the parent) / average assets*100

Net interest margin (NIM) = net interest income / interest-bearing assets, average * 100

Price spread (SPREAD) = interest yield from interest-bearing assets – cost of external capital

Interest yield from interest-bearing assets = interest income / interest-bearing assets, average * 100

Cost of external capital = interest expenses / interest-bearing liabilities, average * 100

Cost/income ratio = total operating cost / total income * 100

*From the reference data the revenue and expenses of discontinued operations are separated

Operating Environment

Whereas the beginning of the year surprised us with faster than expected growth in several economic areas, the second half of the year saw a decline in economic activity everywhere. In most regions, the economy is led by domestic demand, because deepening protectionist moods have served to reduce the contribution of trade to economic growth. The trade war between the US and China continues to depress the world economy and cause uncertainty. Contrary to expectations, in September these major economies mutually expanded the list of goods subject to import tariffs, and their rivalry is bringing more and more large enterprises with international ambitions into their struggle, through which they hope to gain an advantage for the next round of negotiations.

In the previous months, these trends and conflicts that we described have escalated and at the moment it is hard to see a quick solution that would satisfy all the parties involved and allow the global economic sentiment to start rising again. In addition, the uncertainty of people is further deepened by exacerbated geopolitical tensions in the Middle East, while Europe still does not have a unified opinion about the United Kingdom leaving the European Union.

In Q2, economic growth in the Eurozone remained at basically the same level as at the beginning of the year (1.2%). However, the overall picture has become more pessimistic. Year on year, the industrial production of the Eurozone's economic engine, Germany, has decreased for 10 consecutive months, and this has taken the country into stagnation or even to the verge of recession. Another big economy of the Eurozone, Italy, is also suffering from zero growth. It is slightly more positive for France, where the economy grew by 1.4% in Q2. A survey among purchasing managers indicated that enterprises are expecting a worsening of situation in the coming months, rather than an improvement. The ratio between orders and inventory shall decline and the number of jobs is already being reduced, especially in the industrial sector. The service sector's composite index still remains on the expansion side, but has dropped abruptly within the last few months. This is a clear sign that the industrial sector's problems and decreased trading have started to have a wider impact on the economy.

Although wage growth has increased in the Eurozone (2.7% in the second quarter), it has not put sufficient pressure on inflation. Price growth in the Eurozone slowed down in September, dropping to 0.9%, which is again slower than the base inflation (1%) after a three-year pause. It is true that price growth varies country by country – in Slovakia and Netherlands, the growth is rapid (about 3%), in the Baltic countries it is close to the goal (about 2%) and in other areas it is mainly around 1% or below.

The European Central Bank is trying to actively fight low inflation, and during the monetary policy meeting, held in September, the bank decided to decrease the central bank's deposit interest rate by 0.1 percentage points to -0.5 and reinstate the purchasing of securities within the asset purchase programme. In addition, the meeting carried the message that asset purchases shall be continued until inflation sees a strong rebound close to the goal. Therefore, the ECB basically used all of its aces at once and put further responsibility on governments, who should now, based on their opinion, start supporting the Eurozone economy with their budgetary policies. For the current ECB President, Mario Draghi, this was the penultimate monetary policy meeting, he shall have one last chance to tune monetary policy at the end of October. In November, Christine Lagarde shall continue his work.

The economies of Estonia's most important trading partners remained satisfactory in Q2, although their growth numbers decreased significantly when compared to those from the beginning of the year. The structure of the economy has remained relatively the same everywhere – faring better are those branches of activity where output has been directed to the domestic market, with the export sector faring the worst. Construction volumes have decreased everywhere; for Estonia, the most important contraction of the construction market has happened in Sweden and Finland. When these countries are faring worse, Estonia's economy is also strongly influenced due to the trade links, and by the end of the day, Estonia's largest banks are the subsidiaries of Scandinavian companies. Therefore, it is worrisome that according to the latest survey among purchasing managers, confidence has also started to weaken in the services sector in addition to Sweden's industrial sector. Moreover, the depreciation of the Swedish krona against the Euro has also continued, making our exports more expensive for Sweden, thus worsening the situation of local enterprises even more.

In Q2, Estonia's economy grew by 3.6%. Growth slowed significantly when compared to the beginning of the year and the previous year, yet remained fast amid a cooling external environment. Growth was led by the fields of information and communication, which provided a third of all economic growth. Compared to the beginning of the year, growth further increased in trading and agriculture; in all other areas, economic growth decreased. The construction sector, which had contributed up to a fifth of GDP in recent years, continued to stagnate in Q2. Basically, economic growth was investment-focused in all areas, very much the result of last year's low reference base. In the second half of this year, the supportive impact of the low reference base on investments will decline and it is thus difficult to see a continuation of similar economic growth.

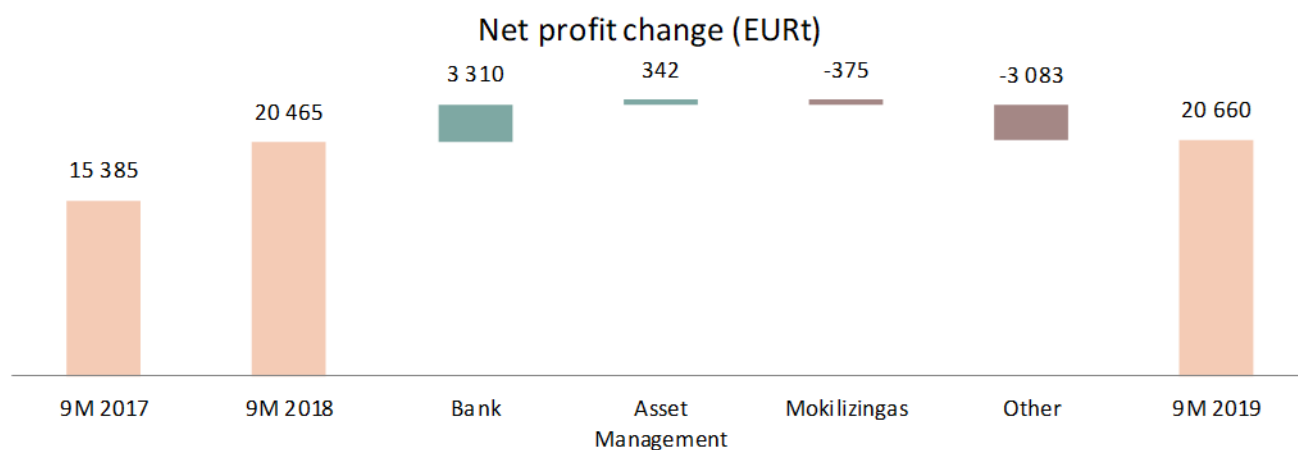
Like in other countries, the cooling world economy will first hit the industrial sector in Estonia, where entrepreneurs are complaining about a reduction in the number of orders. Currently, the concerns of Estonia's industrial sector have mainly focused on the energy and oil shale sector, in which production has decreased by about one-half over a period of a year. However, the problems there are mainly linked to cheap imported energy and the price increase of allowances, rather than a decline in general demand. Therefore, it can be said that Estonia's processing industry has not yet properly experienced the impact of a weakening external environment. Insufficient free labour continued to sustain rapid wage growth in Q2 (7.4%) and domestic demand is currently driving the entire economy with its support. When the wage growth is rapid, the service economy is doing better, but history has shown that when the industrial sector's concerns worsen, service providers are also unable to hold the fort alone indefinitely. Annual economic growth in Estonia should stay around 3%. In the following years, growth shall continue decreasing because of the weakening of external demand, while, on the other hand, the economy is currently already working at close to its maximum level in regards to existing resources, with it being impossible to grow rapidly from that level. The shortage in available resources will continue to increase the significance of the ability of businesses to adapt and be successful in raising productivity, which is why it is necessary to vigorously continue making smart investments. First and foremost, it is important to achieve long-term sustainable economic growth that is in balance between the various sectors. In terms of economic sectors, the risk is higher than average in the construction sector, in which the market has been saturated for a while, and in the processing industry, where

the enterprises are having a harder time keeping up with the rapid wage growth. With regard to the real estate market, LHV remains conservative, monitoring the local and Scandinavian market, with increased attention towards developments in Sweden. Regarding rental cash flow projects, there is a risk that there will not be enough demand to absorb the volumes being developed in the near future, so that corrections will take place in rental prices or vacancy rates. A sustained financing environment can be highlighted as positive because it allows the loan balance to grow reasonably. The demand for household loans is still strong, led by home loans and car leasing. The average interest rate has slowly started to increase for newly issued home loans, illustrating the greater uncertainty in the society but also the lack of competition on the loan market. Due to the surrounding insecurity and relatively high own funds, the loans taken by corporate entities are more modest than those of households. The ratio of loans to deposits and the proportion of overdue loans in the loan portfolio are at post-crisis lows. Historically low interest rates offer possibilities to local enterprises and they should be taking greater advantage of them when thinking about their future. LHV wishes to make a big and effective contribution to the finding and supporting of new growth sources, offering entrepreneurs long-term co-operation and thinking involving the creation of value.

Financial Results of the Group

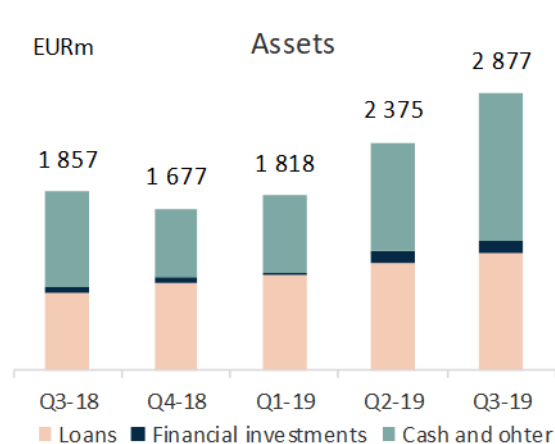
Compared to Q2 2019, the Group's net interest income decreased in Q3 by 1%, standing at EUR 11.6 (Q2: 11.6) million. Net fee and commission income decreased by 3% and stood at EUR 6.4 (Q2: 6.6) million. In total, the net income of the Group decreased by 2% in Q3, compared to Q2, amounting to EUR 18.1 (Q2: 18.4) million, with expenses remaining at the same level and amounting to EUR 9.4 (Q2: 9.4) million. The Group's operating profit for Q3 amounted to EUR 8.7 (Q2: 8.4) million. The loss from loan impairments mounted to EUR 0.02 million in Q3 (Q2: 0.7). The

Group's total profit for Q3 amounted to EUR 8.0 million (Q2: 7.7). Compared to Q3 2018, the Group's net interest income increased by 22% and net fee and commission income decreased by 4%. In terms of business entities, AS LHV Pank posted in Q3 a consolidated profit of EUR 6.4 million and AS LHV Varahaldus a profit of EUR 1.9 million. The AS LHV Group on solo bases posted a loss of EUR 0.3 million. The decrease in other profits compared to last year is due to the extraordinary income from the sale of Mokilizingas last year.



The Group's volume of deposits as at the end of Q3 amounted to EUR 2 535 (Q2: 2 083) million, of which demand deposits formed EUR 2 006 (Q2: 1 672) million and term deposits EUR 529 (Q2: 411) million.

As at the end of Q3, the volume of loans granted by the Group amounted to EUR 1 222 (Q2: 1 118) million, increasing in Q3 by 9%. Compared to Q3 2018, the volume of the Group's deposits has increased by 55% and the volume of loans by 51%.



The Group's Liquidity, Capitalisation and Asset Quality

As at 30 September 2019, the Group's own funds stood at EUR 236.3 million (31 December 2018: EUR 183.3 million). LHV Group own funds are calculated based on regulative requirements. In Q3 the level of own funds changed by including the Q2 profit to own funds and by issuing the additional shares.

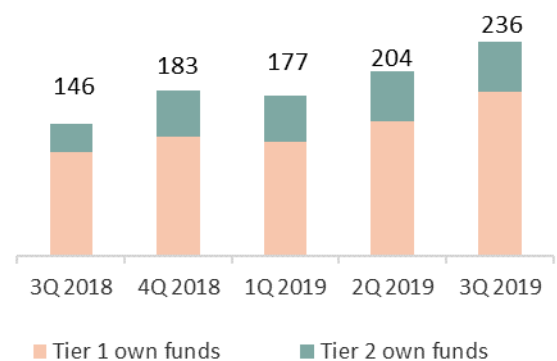
Compared to Group's internal capital adequacy ratio target 15.5%, the Group is well capitalised as at the end of the reporting period, with the capital adequacy ratio amounting to 20.0% (31 December 2018: 21.7%). In addition to total capital adequacy targets the Group has also set internal targets for the core Tier 1 capital adequacy ratio to 10,4% and Tier 1 capital adequacy ratio to 12.10%.

In the end of 2017 Estonian Financial Supervision Authority new prudential ratio - the minimum requirement for own funds and eligible liabilities (MREL), which is valid from 1st of January 2018. This ratio is included into resolution plan and LHV has to keep enough own funds and qualifying liabilities which can be used to cover losses in resolution planning. Minimum requirement was set at 5.79% and will be reviewed annually by Estonian Financial Supervision Authority. Group has set internal MREL minimal target at 6.08%. As of September 30 the MREL ratio was 9.09% (31st of December 2018 11.43%).

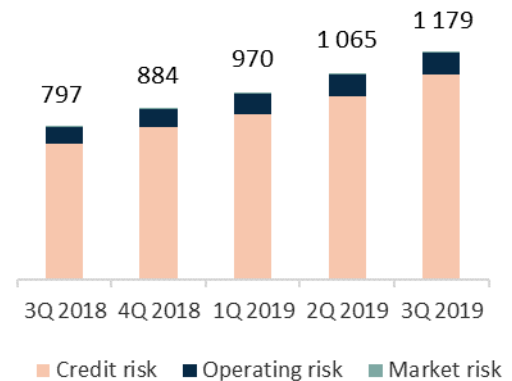
The Group's liquidity coverage ratio (LCR), as defined by the Basel Committee, stood at 183.5 % as at the end of September (31 December 2018: 148.5%). Banks liquidity situation changed in Q3 due to high deposit growth. Financial intermediates deposits in Bank are covered 100% with liquid assets. Excluding the financial intermediates deposits the Groups LCR is 364.2% (31.12.2018: 235.3%). The Group recognises cash and bond portfolios as liquidity buffers. These accounted for 55% of the balance sheet (31 December 2018: 43%). The ratio of loans to deposits stood at 48% as at the end of the third quarter (31 December 2018: 64%). Group's maturity structure is presented in Note 5.

The Group's credit quality was good. As at the end of June, provisions for estimated loan losses amounted to EUR 11.8 million in the balance sheet, i.e. approximately 1.0% of the loan portfolio (31 December 2018: EUR 10.3 million, 1.1%). Estimated loan losses make up 87.2% (31 December 2018: 66.5%) of the portfolio of loans overdue for more than 90 days. The increase in overdue loans is related to few clients.

Own funds



Risk-weighted assets

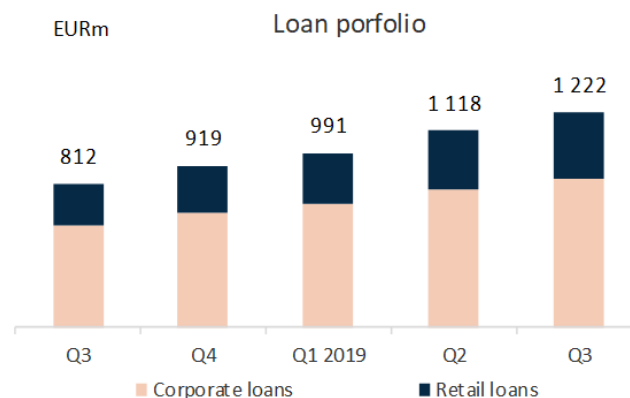


EUR thousand	30.09.2019	Proportion	31.12.2018	Proportion
Loans to customers	1 233 626		929 037	
including overdue loans:	19 199	1.6%	22 483	2.4%
1-30 days	5 846	0.5%	6 142	0.7%
31-60 days	3 717	0.3%	709	0.1%
61-90 days	501	0.0%	177	0.0%
91 and more days	9 135	0.7%	15 454	1.7%
Impairment of loans	-11 561	-0.9%	-10 276	-1.1%
Impairment % of loans overdue for more than 90 days	126.6%		66.5%	

Capital base	30.09.2019	31.12.2018	31.12.2017
Paid-in share capital	28 454	26 016	25 767
Share premium	70 228	46 653	46 304
Statutory reserves transferred from net profit	4 713	3 451	2 471
Other reserves	78	78	36
Retained earnings	69 431	50 193	24 468
Intangible assets (subtracted)	-18 852	-19 084	-7 940
Net profit for the reporting period	7 336	25 237	19 603
Other adjustments	-116	-194	0
Tier 1 capital	161 272	132 350	110 709
Additional Tier 1 capital	20 000	0	0
Total Tier 1 capital	181 272	132 350	110 709
Subordinated debt	55 000	50 900	30 900
Total Tier 2 capital	55 000	50 900	30 900
Net own funds for capital adequacy	236 272	183 250	141 609
Capital requirements			
Central governments and central bank under standard method	945	938	945
Credit institutions and investment companies under standard method	5 283	5 376	6 950
Companies under standard method	784 617	579 836	428 428
Retail claims under standard method	150 398	133 250	144 237
Public sector under standard method	2	125	185
Housing real estate under standard method	66 596	39 903	20 039
Overdue claims under standard methods	2 075	10 142	20 956
Investment funds' shares under standard method	7 944	7 963	6 281
Other assets under standard method	46 647	10 557	13 824
Total capital requirements for covering the credit risk and counterparty credit risk	1 064 507	788 090	641 845
Capital requirement against foreign currency risk under standard method	3 915	3 957	3 551
Capital requirement against interest position risk under standard method	0	32	412
Capital requirement against equity portfolio risks under standard method	964	704	585
Capital requirement against credit valuation adjustment risks under standard method	26	41	15
Capital requirement for operational risk under base method	109 546	91 575	75 999
Total capital requirements for adequacy calculation	1 178 958	884 399	722 407
Capital adequacy (%)	20.04	21.70	19.60
Tier 1 capital ratio (%)	15.38	15.67	15.32
Core Tier 1 capital ratio (%)	13.68	15.67	15.32

Overview of AS LHV Pank Consolidation Group

- (Net) growth in loan volume EUR 104 million
- Net profit EUR 5.4 million
- (Net) growth in deposits EUR 454 million



EUR million	Q3 2019	Q2 2019	Change %	Q3 2018	Change %	From the beginning of 2019	From the beginning of 2018	Change %
Net interest income	11.60	11.84	-2%	9.65	20%	34.68	28.44	22%
Net fee and commission income	3.11	3.01	3%	2.59	20%	8.82	8.64	2%
Other financial income	0.03	0.13	-78%	0.05	-48%	0.15	0.24	-38%
Total net operating income	14.74	14.98	-2%	12.29	20%	43.65	37.32	17%
Other income	0.06	0.05	17%	0.77	-93%	0.09	0.83	-89%
Operating expenses	-7.69	-7.74	-1%	-6.32	22%	-22.94	-18.70	23%
Loan losses	-0.02	-0.70	-98%	-0.50	-99%	-1.66	-1.97	-62%
Income tax expenses	-0.70	-0.70	1%	-1.86	40%	-2.69	-4.34	36%
Net profit	6.39	5.89	8%	4.38	46%	16.45	13.14	25%
Loan portfolio	1 222	1 118	9%	812	33%			
Financial investments	116	112	4%	41	196%			
Deposits of customers incl. deposits of financial intermediates	2 544	2 090	22%	1 652	54%			
Subordinated liabilities	64	64	0%	20	220%			
Equity	150	143	5%	120	19%			

Q2 was successful in terms of business volumes. LHV Bank generated EUR 11.6 million in net interest income and EUR 3.1 million in net fee and commission income. In total, the bank's net income amounted to EUR 14.7 million, expenditure to EUR 7.7 million and loan provisions to EUR 0.02 million. The net profit of LHV Pank amounted to EUR 6.4 million in Q3. This constitutes a 46% increase from Q2 (5.9) and a 46% increase from Q3 2018 (4.4). Net interest income decreased 2% compared to previous quarter. Net fee and commission income increased 3% compared to Q2. Net operating income decreased by 2% compared to previous quarter. In Q3 other financial income amounted to EUR 0.03 million (Q2: 0.1 million).

Securities brokerage fees, transaction fees and fees from cards are greatest contributor to fee and commission income. The quarterly profit before taxes was EUR 7.1 million and net profit

EUR 6.4 million. As at the end of the quarter, the net profit exceeded the financial plan by EUR 1.7 million.

The increase in net interest income stems from the growth in business volumes. By the end of Q3, the total volume of the bank's loan portfolios amounted to EUR 1 222 million (Q2: EUR 1 118 million). The volume of portfolios grew 9% over the quarter. The Corporate Credit Portfolio, containing loans and guarantees, grew by EUR 268.1 million (+44%) over the year, and by EUR 60.3 million (+7%) in a quarterly comparison. The greatest source of growth was loans for real estate activities, which is traditionally the most financed field by commercial banks, having grown by EUR 77.8 million (+34%). Strong commercial real estate projects generating rental income were the main source of growth. This was followed by loans issued to the processing industry, which

grew by EUR 34.9 million (+43%) year-on-year. Loans issued to the sectors involved in wholesale and retail trade, and the repair of motor vehicles and motorcycles grew by EUR 31.0 million (+121%) compared to the previous year.

In comparison with Q2 2019, portfolio growth was influenced most by loans and guarantees issued to the sector involved with real estate dealings (EUR 13.2 million; +5%), followed by sectors engaged in wholesale and retail sales, the repair of motor vehicles and motorcycles (EUR 12.6 million; +29%), as well as administration and support services (EUR 9.7 million; 30%).

Most corporate loans have been granted to the real estate sector, which makes up 37% of the bank's corporate loan portfolio. A significant share of real estate loans were issued to high-quality projects generating rental income; a much smaller share went to property development. Most of the financed development properties are located in Tallinn, with projects in other bigger Estonian cities and the vicinity of Tallinn accounting for 8% of development projects. Regarding the funding of new developments in Tallinn, LHV's market share exceeded one-fourth at the end of Q3 2019. LHV's property development portfolio is also well-positioned should market trends change – the financed developments are in good locations and the ratio of risk to the planned price for the projects remains close to 50%.

After the real estate sector, the most credit has been issued to companies in the financial and insurance activities sector (14% share) and the processing industry (14% share). Among sectors with a higher than average credit risk, accommodation and catering comprise 3%, construction 2%, and transport and storage 1% of the total portfolio volume.

The year continued very successfully for the bank in the third quarter. Over the quarter, the number of bank customers increased by 9,600, reaching 189,000. New record levels were achieved in customer activity business volumes. The deposit volume reached EUR 2.5 billion and the loan volume EUR 1.2 billion by the end of the quarter. The deposit volume grew by EUR 454 million and the loan volume by EUR 104 million. Both the growth of deposits and loans were broad-based. The deposits of regular customers grew by EUR 131 million, those of the financial intermediaries by EUR 184 million and deposits involved through deposit marketplaces by EUR 138 million. From the deposit marketplaces, the bank has involved term deposits of 380 million euros. During the first half of the quarter, deposits were involved more than usual in order to provide assurance about the existence

of sufficient financing to purchase the loan portfolio of Danske Bank's private clients in the fourth quarter and in the second half of the quarter, the involvement of deposits from deposit marketplaces were essentially terminated. As at the end of the quarter, the bank held EUR 1.4 billion with the European Central Bank. Corporate loans grew by EUR 61 million and retail loans by EUR 44 million. The quarter posted a net profit of 6.4 million euros. The faster growth of the net profit has been restrained by the increased interest expense in the last quarters for both the deposits involved from deposit marketplaces as well as the money held in the European Central Bank. In essence, the bank has already taken in an interest expense which is accompanied by the purchase of Danske Bank's private clients' loan portfolio, but the bank will only start earning interest income in the fourth quarter.

Opening accounts, which was more active compared to the previous quarters, was assisted by the updated mobile bank as well as the extended ATM network. Mobile bank was significantly upgraded during the quarter. The possibility to open a ready account, order a card and apply for different loan products in the mobile bank. In order to introduce the mobile bank to clients, the bank arranged a wider marketing campaign in the second half of the quarter. Reconfiguration works of the common network ATMs for connecting to the bank's network and updating of their appearance were finished during the quarter. From the major settlers, the cash pool account of the treasury launched and accounts were opened for the bank's clients in the Ministry of Finance and Tax and Customs Board for making payments and paying taxes.

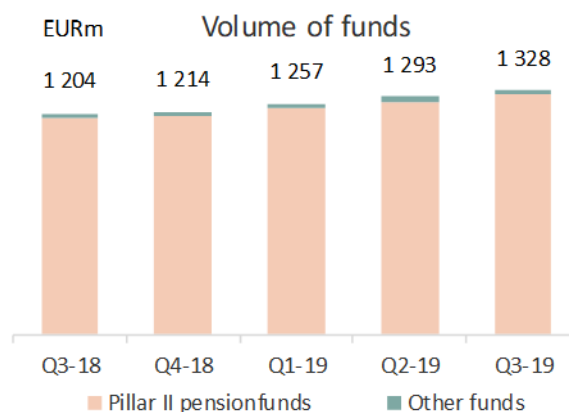
In mid-September, a completely new payment service directive entered into force, as a result of which the bank opened access to clients' accounts for making and receiving payments from third parties if prior authorisation is given by the client. First service providers have already interfaced with the bank. As a result of the directive, restrictions were imposed for making contactless payments. It is possible to either make five consecutive contactless payments or make contactless transactions in the amount of 150 euros without strong authentication.

At the end of the quarter, the bank submitted an additional activity licence application of covered bonds to the Financial Supervision Authority. It is planned to reach the issue of covered bonds next year in order to finance the bank's home loan portfolio through a cheaper and more long-term financial instrument.

In the organisational structure of the bank, the compliance function and department was placed under the command of the Chairman of the Management Board from risk management and a money laundering and terrorism financing prevention committee was created.

Overview of AS LHV Varahaldus

- The quarterly profit before income tax was EUR 1.9 million
- The volume of second pillar pension assets is EUR 1 303 million, quarterly growth of EUR 32 million
- As at the end of September, there were 176 000 active clients. In comparison with the previous year, there were 1% fewer clients.



EUR million	Q3 2019	Q2 2019	Change %	Q3 2018	Change %	9M 2019	9M 2018	Change %
Net fee and commission income	3.30	3.61	-9%	3.56	-7%	10.43	10.32	1%
Net financial income	0.06	0.03	100%	-0.02	NA	0.24	-0.03	NA
Operating expenses	-0.99	-1.05	-6%	-0.95	4%	-3.07	-2.94	4%
Depreciation of non-current assets	-0.48	-0.46	4%	-0.45	7%	-1.39	-1.35	3%
Profit	1.89	2.13	-11%	2.14	-12%	6.21	6.00	3%
Financial investments	7.9	7.8	1%	7.5	5%			
Subordinated liabilities	1.6	1.6	0%	2.1	-24%			
Equity	28.0	26.0	8%	27.0	4%			
Assets under management	1 327.7	1 293.4	3%	1 203.8	10%			

In Q3, the operating income of LHV Varahaldus was EUR 3.3 million, totalling EUR 10.4 million in the first nine months of the year. In comparison with Q2, operating costs were 6% lower, at EUR 988,000. At the same time, in comparison with Q2, the depreciation charge grew by nearly EUR 20,000, since the depreciation of the mobile app 'My Pension' began in June. The profit before income tax earned was EUR 1.9 million in Q2, EUR 6.2 over the period of 9 months, an improvement of 4% over the previous year.

In September, operating income for LHV Varahaldus fell to the level of EUR 771,000 (August EUR 1,240,000). Amendments to legislation, which entered into force at the beginning of September, served to significantly alleviate existing investment restrictions, allowing funds to earn a success fee, although they also brought along a notable decline in administrative fees. Fees for the largest pension funds of LHV Varahaldus, L and XL, fell by 40%, from 1.2% to 0.72%. Consequently, operating income and profitability in the fourth quarter, in comparison with the first eight months of the year, will be lower.

The movement of stock markets was volatile during Q3, although regardless of the decline at the start of August, the most important markets ended the quarter in positive territory. The LHV Pensionifond Indeks demonstrated the best result on the Estonian pension market with growth of 20.48%. The price risk related to stock exchanges is lower in actively managed pension funds, with the focus being on OTC-traded assets with a long-term stable rate of return.

A capital repayment transfer to the LHV Group, in the amount of EUR 1.5 million, took place at the start of August, and as a result of the growth of the fund and the minimal own funds requirement, LHV Pension Fund Index shares were purchased in the amount of EUR 63,000. LHV Varahaldus is monitoring and actively communicating with various parties on the topic of the planned pension reform.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

<i>(in thousands of euros)</i>	Note	Q3 2019	9M 2019	Q3 2018	9M 2018
Continuing operations					
Interest income		16 029	43 206	11 355	33 425
Interest expense		-4 483	-9 088	-1 901	-5 564
Net interest income	9	11 546	34 118	9 454	27 861
Fee and commission income		9 445	27 035	8 175	24 466
Fee and commission expense		-3 032	-7 785	-2 028	-5 514
Net fee and commission income	10	6 413	19 250	6 147	18 952
Net gains from financial assets measured at fair value		106	494	13	267
Foreign exchange rate gains/losses		13	6	77	71
Net gains from financial assets		119	500	90	338
Other income		33	35	783	808
Other expense		0	-9	-13	-40
Total other income		33	26	770	768
Staff costs	11	-4 595	-14 030	-3 779	-11 463
Administrative and other operating expenses	11	-4 805	-13 877	-4 152	-11 908
Total expenses		-9 400	-27 907	-7 931	-23 371
Profit before impairment losses on loans and advances		8 711	25 987	8 530	24 548
Impairment losses on loans and advances	22	-15	-1 664	-1 859	-4 337
Profit before income tax		8 696	24 323	6 671	20 211
Income tax expense		-701	-3 663	-501	-3 070
Net profit for the reporting period from continued operations	2	7 995	20 660	6 170	17 141
Profit from discontinued operations	12	0	0	0	3 324
Net profit for the reporting period	2	7 995	20 660	6 170	20 465
Other comprehensive income/loss:					
Items that may be reclassified subsequently to profit or loss:					
Changes in the fair value of debt instruments measured at FVOCI					
		0	0	76	-36
Total profit and other comprehensive income for the reporting period		7 995	20 660	6 246	20 429
Total profit of the reporting period attributable to:					
Owners of the parent		7 290	19 078	5 715	19 189
Non-controlling interest		705	1 582	455	1 276
Total profit for the reporting period	2	7 995	20 660	6 170	20 465
Total profit and other comprehensive income attributable to:					
Owners of the parent		7 290	19 078	5 791	19 153
Non-controlling interest		705	1 582	455	1 276
Total profit and other comprehensive income for the reporting period		7 995	20 660	6 246	20 429
Basic earnings per share (in euros)	17	0.27	0.71	0.22	0.74
Diluted earnings per share (in euros)	17	0.26	0.70	0.22	0.73

The Notes on pages 18 to 34 are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Financial Position

<i>(in thousands of euros)</i>	Note	30.09.2019	31.12.2018
Assets			
Due from central bank	4, 5, 6, 13	1 418 155	639 862
Due from credit institutions	4, 5, 6, 13	33 237	25 791
Due from investment companies	4, 6, 13	17 118	17 005
Equity instruments at fair value through other comprehensive income	4, 6, 7	298	298
Financial assets at fair value through profit or loss	4, 6, 7	123 738	46 856
Loans and advances to customers	4, 6, 8, 22	1 222 064	918 761
Receivables from customers		33 489	3 721
Other financial assets		2 499	2 936
Other assets		1 727	1 651
Tangible assets	20	5 623	1 135
Intangible assets	20	15 238	15 470
Goodwill		3 614	3 614
Total assets	2	2 876 800	1 677 100
Liabilities			
Deposits of customers and loans received	14	2 563 308	1 443 782
Financial liabilities at fair value through profit or loss	6	20	11
Accounts payable and other liabilities	15	39 505	24 644
Subordinated debt	6, 21	75 000	50 900
Total liabilities	2	2 677 833	1 519 337
Owner's equity			
Share capital		28 454	26 016
Share premium		70 228	46 653
Statutory reserve capital		4 713	3 451
Other reserves		2 559	2 090
Retained earnings		88 509	75 430
Total equity attributable to owners of the parent		194 463	153 640
Non-controlling interest		4 504	4 123
Total equity		198 967	157 763
Total liabilities and equity		2 876 800	1 677 100

The Notes on pages 18 to 34 are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Cash Flows

<i>(in thousands of euros)</i>	Note	Q3 2019	9M 2019	Q3 2018	9M 2018
Cash flows from operating activities					
Interest received		15 738	42 499	11 511	32 767
Interest paid		-3 204	-7 358	-2 163	-4 881
Fees and commissions received		9 445	27 035	8 175	24 466
Fees and commissions paid		-3 032	-7 785	-2 028	-5 514
Other income received		56	6	770	797
Staff costs paid		-4 495	-12 958	-4 209	-10 966
Administrative and other operating expenses paid		-3 777	-10 817	-3 368	-9 708
Income tax		-544	-3 506	-631	-2 569
Cash flows from operating activities before change in operating assets and liabilities		10 187	27 116	8 057	24 392
Net increase/decrease in operating assets:					
Net increase/(decrease) in financial assets at fair value through profit or loss		-8	38	-36	-85
Loans and advances to customers		-102 996	-309 193	-37 969	-95 788
Mandatory reserve at central bank		-5 630	-11 214	92	-994
Security deposits		351	437	-340	-398
Other assets		1 853	1 701	-510	-1 062
Net increase/decrease in operating liabilities:					
Demand deposits of customers		333 222	701 104	80 995	98 883
Term deposits of customers		117 007	409 865	13 802	1 768
Loans received		0	10 000	6 250	6 250
Repayments of the loans received		0	-2 943	0	0
Financial liabilities held for trading at fair value through profit and loss		12	10	-6	-1
Other liabilities		14 909	14 076	10 198	-36 630
Discontinued operations		0	0	0	-270
Net cash generated from/used in operating activities		368 907	840 997	80 533	-3 935
Cash flows from investing activities					
Purchase of non-current assets		-1 302	-7 236	-205	-1 289
Disposal of subsidiary, net of cash disposed	12	0	0	0	5 046
Proceeds from disposal and redemption of investment securities at fair value through other comprehensive income		0	0	631	519
Net changes of investment securities at fair value through profit or loss		-4 459	-77 348	4 749	7 574
Net cash flows from/used in investing activities		-5 761	-84 514	5 175	11 850
Cash flows from financing activities					
Paid in share capital		713	713	598	598
Dividends paid		0	-6 664	0	-5 295
Subordinated loans received		0	40 000	0	0
Repayments of the subordinated loans received		0	-15 900	0	0
Net cash flows from/used in financing activities		713	18 149	598	-4 697
Effect of exchange rate changes on cash and cash equivalents	6	13	6	77	71
Net increase/decrease in cash and cash equivalents		363 872	774 638	86 383	3 289
Cash and cash equivalents at the beginning of the period		1 079 144	668 378	862 743	945 837
Cash and cash equivalents at the end of the period	13	1 443 016	1 443 016	949 126	949 126

The Notes on pages 18 to 34 are an integral part of the condensed consolidated interim financial statements

Condensed Consolidated Interim Statement of Changes in Equity

<i>(in thousands of euros)</i>	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings	Total equity attributable to owners of LHV Group	Non-controlling interest	Total equity
Balance as at 01.01.2018	25 767	46 304	2 471	1 449	44 071	120 062	7 893	127 955
Changes in initial application of IFRS 15	0	0	0	0	10 617	10 617	0	10 617
Adjusted balance as at 01.01.2018	25 767	46 304	2 471	1 449	54 688	130 679	7 893	138 572
Disposal of subsidiary	0	0	0	0	0	0	-4 550	-4 550
Transfer to statutory reserve capital	0	0	980	0	-980	0	0	0
Dividends paid	0	0	0	0	-4 123	-4 123	-1 172	-5 295
Share options	0	0	0	258	608	866	0	866
Paid in share capital	249	349	0	0	0	598	0	598
<i>Profit for the reporting period</i>	0	0	0	0	19 189	19 189	1 276	20 465
<i>Other comprehensive loss</i>	0	0	0	-36	0	-36	0	-36
Total profit and other comprehensive income for the reporting period	0	0	0	-36	19 189	19 153	1 276	20 429
Balance as at 30.09.2018	26 016	46 653	3 451	1 671	69 382	147 173	3 447	150 620
Balance as at 01.01.2019	26 016	46 653	3 451	2 090	75 430	153 640	4 123	157 763
Transfer to statutory reserve capital	0	0	1 262	0	-1 262	0	0	0
Dividends paid	0	0	0	0	-5 463	-5 463	-1 201	-6 664
Share options	0	0	0	469	726	1 195	0	1 195
Paid in share capital	2 438	23 575	0	0	0	26 013	0	26 013
<i>Profit for the reporting period</i>	0	0	0	0	19 078	19 078	1 582	20 660
<i>Other comprehensive income/loss</i>	0	0	0	0	0	0	0	0
Total profit and other comprehensive income for the reporting period	0	0	0	0	19 078	19 078	1 582	20 660
Balance as at 30.09.2019	28 454	70 228	4 713	2 559	88 509	194 463	4 504	198 967

The Notes on pages 18 to 34 are an integral part of the condensed consolidated interim financial statements

Notes to the Condensed Consolidated Interim Financial Statements

NOTE 1 Accounting Policies

The condensed consolidated interim financial statements have been prepared in accordance with the international financial reporting standard IAS 34 "Interim Financial Reporting", as adopted by the European Union, and consists of condensed consolidated financial statements and selected explanatory notes. The accounting policies and methods of computation used in the preparation of the interim report are the same as the accounting policies and methods of computation used in the annual report for the year ended 31 December 2018, which comply with the International Financial Reporting Standards, as adopted by the European Union (IFRS EU), with the exception of accounting principles changed as of 1 January 2019 in related to newly enforced IFRS EU standards. The changes in accounting principles are disclosed in Note 1, subsection "Changes in accounting policies".

These condensed consolidated interim financial statements have been reviewed, not audited and do not contain the entire range of information required for the preparation of complete financial statements. The condensed consolidated interim financial statements should be read in conjunction with the Annual Report prepared for the year ended 31 December 2018, which has been prepared in accordance with the International Financial Reporting Standards (IFRS EU).

The financial figures of the condensed consolidated interim financial statements have been presented in thousands of euros, unless otherwise indicated. The interim financial statements have been consolidated and include the results of AS LHV Group and its subsidiaries AS LHV Varahaldus (100% interest), AS LHV Pank (100% interest), OÜ Cuber Tehnology (100% interest) and AS LHV Finance (65% interest). As of March 31 2018 the quarterly report included also the results of UAB Mokilizingas (50% interest+1 share).

Changes in accounting policies

The Group has adopted IFRS 16, Leases for the first time starting from 01.01.2019. The other new standards that became effective since 1 January 2019 have had no impact on the 6-month interim financial report of the Group. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

Lessees will be required to recognise:

- (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard.

On adoption of IFRS 16, the group recognised tangible assets and lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

The Group leases various properties. Rental contracts are typically made for fixed periods of up to 5 years but as a rule, include extension and termination options. Lease terms are negotiated on an individual basis and may contain a wide range of different terms and conditions.

The Group recognises leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Lease liabilities were recognized as present value of lease payments. The right-of use assets were measured at the amount equal to the lease liability, as no adjustments to right of use assets were necessary. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable.
- variable lease payment that are based on some kind an index (for example inflation, Euribor).
- amounts expected to be payable by the lessee under residual value guarantees.

- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

The lease payments are discounted using the interest rate implicit in the lease, if it is readily determinable, or the Group's incremental borrowing rate. The alternative interest rate is the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Short-term leases are leases with a lease term of 12 months or less. Low value assets comprise IT-equipment and small items of office furniture. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The management reviews the assessment if a significant event or a significant change in circumstances occurs which affects the probability of using options and that is within the control of the management. Alternatively, the extension period of the contract has changed (for example, Group has exercised an option, which initially was considered reasonably uncertain or has not exercised an option, which was initially considered reasonably certain).

According to the contracts, Group has not granted any residual value guarantees in the end of the contract.

On applying the standard as at 01.01.2019, the lease payments were discounted at the Group's incremental borrowing rate of 2.25% on average.

The Group has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.
- lease agreements for low value assets are excluded.
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The group has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease. As the result of application, the Group's total assets in the statement of financial position as at 01.01.2019 increased 4 042 thousand euros and liabilities increased 4 042 thousand euros.

NOTE 2 Business Segments

The Group divides its business activities into segments according to its legal structure, except LHV Pank divides its business activities by 3 main business segments: retail banking, private banking and corporate banking. The business segments form a part of the Group, with a separate access to financial data and which are subject to regular monitoring of operating profit by the Group's decision-maker. The Management Board of AS LHV Group has been designated as the decision-maker responsible for allocation of funds and assessment of the profitability of the business activities. The result posted by a segment includes revenue and expenditure directly related to the segment.

The revenue of a reported segment includes gains from transactions between the segments, i.e. loans granted by AS LHV Pank to other group companies. The division of interest income and fee and commission income by customer location has been presented in Notes 9 and 10. The breakdown of interest income by customer location does not include the income from current accounts, deposits and investments in securities. The Group does not have any customers, whose income would account for more than 10% of the corresponding type of revenue.

	Retail banking	Private banking	Corporate banking	Asset manage- ment	Hire- purchase and consumer finance in Estonia	Hire- purchase and consumer finance in Lithuania	Other activities	Intra- segment elimi- nations	Total
Q3 2019									
Interest income	4 810	352	9 070	0	2 888	0	2 277	-3 368	16 029
Interest expense	-785	0	-1 596	-31	-452	0	-4 987	3 368	-4 483
Net interest income	4 025	352	7 474	-31	2 436	0	-2 710	0	11 546
Fee and commission income	5 426	404	157	3 303	155	0	0	0	9 445
Fee and commission expense	-2 820	0	-36	0	-172	0	-4	0	-3 032
Net fee and commission income	2 606	404	121	3 303	-17	0	-4	0	6 413

Net income	6 631	756	7 595	3 272	2 419	0	-2 714	0	17 959
Net gains from financial assets	30	0	0	91	0	0	-2	0	119
Administrative and other operating expenses, staff costs	-4 323	-280	-1 684	-1 469	-440	0	-1 171	0	-9 367
Operating profit	2 338	476	5 911	1 894	1 979	0	-3 887	0	8 711
Impairment losses on loans and advances	-91	0	39	0	37	0	0	0	-15
Income tax	-236	-33	-432	0	0	0	0	0	-701
Net profit	2 011	443	5 518	1 894	2 016	0	-3 887	0	7 995

	Retail banking	Private banking	Corporate banking	Asset management	Hire-purchase and consumer finance in Estonia	Hire-purchase and consumer finance in Lithuania	Other activities	Intra-segment eliminations	Total
9M 2019									
Interest income	12 190	926	25 228	0	8 139	0	4 894	-8 171	43 206
Interest expense	-2 077	0	-4 527	-114	-1 202	0	-9 339	8 171	-9 088
Net interest income	10 113	926	20 701	-114	6 937	0	-4 445	0	34 118
Fee and commission income	14 243	1 158	769	10 429	436	0	0	0	27 035
Fee and commission expense	-7 234	0	-56	0	-486	0	-9	0	-7 785
Net fee and commission income	7 009	1 158	713	10 429	-50	0	-9	0	19 250
Net income	17 122	2 084	21 414	10 315	6 887	0	-4 454	0	53 368
Net gains from financial assets	69	0	0	356	0	0	4 475	-4 400	500
Administrative and other operating expenses, staff costs	-13 213	-834	-5 459	-4 462	-1 425	0	-2 488	0	-27 881
Operating profit	3 978	1 250	15 955	6 209	5 462	0	-2 467	-4 400	25 987
Impairment losses on loans and advances	-364	0	-1 119	0	-181	0	0	0	-1 664
Income tax	-559	-104	-1 268	-972	-760	0	0	0	-3 663
Net profit	3 055	1 146	13 568	5 237	4 521	0	-2 467	-4 400	20 660

Total assets 30.09.2019	1 727 603	162 222	920 691	30 139	61 974	0	179 201	-205 030	2 876 800
Total liabilities 30.09.2019	1 942 648	419 761	311 152	2 038	49 060	0	75 480	-122 306	2 677 833

	Retail banking	Private banking	Corporate banking	Asset management	Hire-purchase and consumer finance in Estonia	Hire-purchase and consumer finance in Lithuania	Other activities	Intra-segment eliminations	Total
Q3 2018									
Interest income	2 432	276	6 491	0	2 376	0	1 445	-1 665	11 355
Interest expense	0	0	-1 133	-42	-319	0	-2 072	1 665	-1 901
Net interest income	2 432	276	5 358	-42	2 057	0	-627	0	9 454
Fee and commission income	3 577	290	48	3 560	131	0	569	0	8 175
Fee and commission expense	-1 813	0	7	0	-162	0	-60	0	-2 028
Net fee and commission income	1 764	290	55	3 560	-31	0	509	0	6 147

Net income	4 196	566	5 413	3 518	2 026	0	-118	0	15 601
Net gains from financial assets	-7	0	0	36	0	0	61	0	90
Administrative and other operating expenses, staff costs	-3 040	-165	-775	-1 412	-485	0	-1 284	0	-7 161
Operating profit	1 149	401	4 638	2 142	1 541	0	-1 341	0	8 530
Impairment losses on loans and advances	-26	0	-1 593	0	-240	0	0	0	-1 859
Income tax	-152	-9	-284	0	0	0	-56	0	-501
Discontinued operations	0	0	0	0	0	0	0	0	0
Net profit	971	392	2 761	2 142	1 301	0	-1 397	0	6 170

	Retail banking	Private banking	Corporate banking	Asset management	Hire-purchase and consumer finance in Estonia	Hire-purchase and consumer finance in Lithuania	Other activities	Intra-segment eliminations	Total
9M 2018									
Interest income	7 476	901	18 201	0	6,845	0	5 590	-5 588	33 425
Interest expense	0	0	-3 118	-126	-902	0	-7 006	5 588	-5 564
Net interest income	7 476	901	15 083	-126	5 943	0	-1 416	0	27 861
Fee and commission income	9 441	929	1 743	10 314	382	0	1 657	0	24 466
Fee and commission expense	-4 952	0	-51	0	-411	0	-100	0	-5 514
Net fee and commission income	4 489	929	1 692	10 314	-29	0	1 557	0	18 952
Net income	11 965	1 830	16 775	10 188	5 914	0	141	0	46 813
Net gains from financial assets	-13	0	0	101	0	0	2 428	-2 178	338
Administrative and other operating expenses, staff costs	-8 958	-683	-3 901	-4 294	-1 534	0	-3 233	0	-22 603
Operating profit	2 994	1 147	12 874	5 995	4 380	0	-664	-2 178	24 548
Impairment losses on loans and advances	427	0	-4 302	0	-430	0	-32	0	-4 337
Income tax	-321	-50	-649	-1 100	-838	0	-112	0	-3 070
Discontinued operations	0	0	0	0	0	3 324	0	0	3 324
Net profit	3 100	1 097	7 923	4 895	3 112	3 324	-808	-2 178	20 465
Total assets 30.09.2018	1 117 435	104 927	595 514	29 391	48 788	0	107 730	-146 364	1 857 421
Total liabilities 30.09.2018	1 240 672	268 080	198 718	2 790	38 915	0	31 224	-73 598	1 706 801
Total assets 31.12.2018	1 005 454	94 412	535 836	31 193	51 383	0	127 748	-168 926	1 677 100
Total liabilities 31.12.2018	1 105 619	238 898	177 086	2 610	39 577	0	51 380	-95 834	1 519 337

NOTE 3 Risk Management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management

information and disclosures required in the annual financial statements; they should be read in conjunction with the group's annual financial statements as at 31 December 2018.

There have been no major changes in the risk management department or in any risk management policies since the year end.

NOTE 4 Breakdown of Financial Assets and Liabilities by Countries

30.09.2019	Estonia	Latvia	Lit- huania	Finland	Ger- many	Other EU	USA	UK	Other	Total
Due from banks and investment companies	1 413 215	0	0	0	0	9 452	16 878	26 066	2 899	1 468 510
Financial assets at fair value	88 262	772	20 126	0	11 983	2 769	124	0	0	124 036
Loans and advances to customers	1 200 057	64	369	1 468	115	18 604	350	0	1 037	1 222 064
Receivables from customers	33 480	1	5	0	0	0	0	0	3	33 489
Other financial assets	109	0	0	0	0	0	2 390	0	0	2 499
Total financial assets	2 735 123	837	20 500	1 468	12 098	30 825	19 742	26 066	3 939	2 850 598
Deposits of customers and loans received	1 647 123	17 026	2 265	21 973	378 046	432 863	1 727	0	62 285	2 563 308
Subordinated debt	75 000	0	0	0	0	0	0	0	0	75 000
Accounts payable and other financial liabilities	36 488	0	4	27	0	13	3	3	0	36 538
Financial liabilities at fair value	20	0	0	0	0	0	0	0	0	20
Total financial liabilities	1 758 631	17 026	2 269	22 000	378 046	432 876	1 730	3	62 285	2 674 866

Unused loan commitments in the amount of EUR 302 422 thousand are for the residents of Estonia.

31.12.2018	Estonia	Latvia	Lit- huania	Finland	The Nether- lands	Ger- many	Other EU	USA	UK	Other	Total
Due from banks and investment companies	650 321	0	0	0	0	0	13 599	16 541	0	2 197	682 658
Financial assets at fair value	8 392	772	17 242	0	0	1	20 704	43	0	0	47 154
Loans and advances to customers	886 881	52	10 561	1 524	1	6	18 432	175	0	1 129	918 761
Receivables from customers	3 706	1	5	0	0	0	0	0	0	9	3 721
Other financial assets	111	0	0	0	0	0	0	2 825	0	0	2 936
Total financial assets	1 549 411	825	27 808	1 524	1	7	52 735	19 584	0	3 335	1 655 230
Deposits of customers and loans received	1 154 012	10 041	951	3 414	576	13 274	220 173	3 085	0	38 256	1 443 782
Subordinated debt	50 900	0	0	0	0	0	0	0	0	0	50 900
Accounts payable and other financial liabilities	21 381	0	4	27	0	0	13	3	0	0	21 428
Financial liabilities at fair value	11	0	0	0	0	0	0	0	0	0	11
Total financial liabilities	1 226 304	10 041	955	3 441	576	13 274	220 186	3 088	0	38 256	1 516 121

Unused loan commitments in the amount of EUR 188 841 thousand are for the residents of Estonia.

NOTE 5 Breakdown of Assets and Liabilities by Contractual Maturity Dates

30.09.2019	On demand	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates						
Deposits from customers and loans received	2 005 392	45 851	488 571	23 689	3 678	2 567 180
Subordinated debt	0	1 244	3 731	19 900	87 263	112 138
Accounts payable and other financial liabilities	0	36 538	0	0	0	36 538
Unused loan commitments	0	302 422	0	0	0	302 422
Financial guarantees by contractual amounts	0	12 733	0	0	0	12 733
Foreign exchange derivatives (gross settled)	0	8 137	0	631	0	8 768
Financial liabilities at fair value	0	20	0	0	0	20
Total liabilities	2 005 392	406 945	492 302	44 220	90 940	3 039 799
Financial assets by contractual maturity dates						
Due from banks and investment companies	1 468 510	0	0	0	0	1 468 510
Financial assets at fair value (debt securities)	0	80 008	26 226	7 154	2 247	115 635
Loans and advances to customers	0	99 323	225 140	841 899	244 624	1 410 985
Receivables from customers	0	33 489	0	0	0	33 489
Other financial assets	2,499	0	0	0	0	2 499
Foreign exchange derivatives (gross settled)	0	8 137	0	631	0	8 768
Total financial assets	1 471 009	220 957	251 366	849 683	246 871	3 039 886
Maturity gap from financial assets and liabilities	-534 383	-185 988	-240 936	805 463	155 931	87

31.12.2018	On demand	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates						
Deposits from customers and loans received	1 304 239	24 949	94 113	16 780	4 390	1 444 471
Subordinated debt	0	832	2 496	13 311	59 426	76 065
Accounts payable and other financial liabilities	0	21 428	0	0	0	21 428
Unused loan commitments	0	188 841	0	0	0	188 841
Financial guarantees by contractual amounts	0	9 314	0	0	0	9 314
Foreign exchange derivatives (gross settled)	0	18 559	0	610	0	19 169
Financial liabilities at fair value	0	11	0	0	0	11
Total liabilities	1 304 239	263 934	96 609	30 701	63 816	1 759 299
Financial assets by contractual maturity dates						
Due from banks and investment companies	682 658	0	0	0	0	682 658
Financial assets at fair value (debt securities)	0	20 690	0	15 845	2 161	38 696
Loans and advances to customers	0	63 584	198 293	634 077	154 853	1 050 807
Receivables from customers	0	3 721	0	0	0	3 721
Other financial assets	2 936	0	0	0	0	2 936
Foreign exchange derivatives (gross settled)	0	18 559	0	610	0	19 169
Total financial assets	685 594	106 554	198 293	650 532	157 014	1 797 987
Maturity gap from financial assets and liabilities	-618 645	-157 380	101 684	619 831	93 198	38 688

It is possible to take a short-term loan from the central bank against the security of the majority of instruments in the bond portfolio. All cashflows from financial assets and –liabilities except derivatives include all contractual cash flows.

NOTE 6 Open Foreign Currency Positions

30.09.2019	EUR	CHF	GBP	SEK	USD	Other	Total
Assets bearing currency risk							
Due from banks and investment companies	1 414 060	3 059	41 930	1 759	809	6 893	1 468 510
Financial assets at fair value	104 488	0	0	80	19 468	0	124 036
Loans and advances to customers	1 220 272	2	156	810	749	75	1 222 064
Receivables from customers	28 019	1	5 167	66	0	236	33 489
Other financial assets	295	0	0	0	2 204	0	2 499
Total assets bearing currency risk	2 767 133	3 062	47 253	2 715	23 231	7 204	2 850 598
Liabilities bearing currency risk							
Deposits from customers and loans received	2 474 863	3 056	46 447	8 028	21 796	9 118	2 563 308
Financial liabilities at fair value	0	0	0	0	3	6	9
Accounts payable and other financial liabilities	33 904	-3	969	307	925	436	36 538
Subordinated debt	75 000	0	0	0	0	0	75 000
Total liabilities bearing currency risk	2 583 767	3 053	47 416	8 335	22 721	9 574	2 674 866
Open gross position derivative assets at contractual value	631	0	0	5 675	0	2 462	8 768
Open gross position derivative liabilities at contractual value	8 137	0	0	0	631	0	8 768
Open foreign currency position	175 860	9	-163	55	-121	93	175 732

31.12.2018	EUR	CHF	GBP	SEK	USD	Other	Total
Assets bearing currency risk							
Due from banks and investment companies	651 175	2 224	18 319	2 536	1 430	6 973	682 658
Financial assets at fair value	22 750	0	1 174	1	23 230	0	47 154
Loans and advances to customers	902 843	0	14 707	220	957	34	918 761
Receivables from customers	2 802	0	374	42	0	503	3 721
Other financial assets	840	0	0	0	2 096	0	2 936
Total assets bearing currency risk	1 580 410	2 224	34 574	2 799	27 713	7 511	1 655 230
Liabilities bearing currency risk							
Deposits from customers and loans received	1 356 671	2 194	41 600	6 363	29 297	7 657	1 443 782
Financial liabilities at fair value	0	0	0	0	3	8	11
Accounts payable and other financial liabilities	15 299	50	2 238	410	120	3 311	21 428
Subordinated debt	50 900	0	0	0	0	0	50 900
Total liabilities bearing currency risk	1 422 870	2 244	43 838	6 773	29 420	10 976	1 516 121
Open gross position derivative assets at contractual value	610	0	9 166	3 973	2 186	3 234	19 169
Open gross position derivative liabilities at contractual value	18 559	0	0	0	610	0	19 169
Open foreign currency position	139 591	-20	-98	-2	-130	-232	139 108

NOTE 7 Fair Value of Financial Assets and Liabilities

The Management Board of the Group has determined the fair value of assets and liabilities recognised at amortised cost in the balance sheet. To determine the fair value, future cash flows are discounted based on the market interest curve.

The below table provides an overview of the assessment techniques, which depend on the hierarchy of assets and liabilities measured at fair value:

	Level 1	Level 2	Level 3	30.09.2019	Level 1	Level 2	Level 3	31.12.2018
Financial assets at fair value through profit and loss								
Shares and fund units*	495	7 597	0	8 092	510	7 590	0	8 100
Equity instruments at fair value through other comprehensive income	0	0	298	298	0	0	298	298
Bonds at fair value through profit and loss	115 635	0	0	115 635	38 697	0	0	38 697
Interest rate swaps and foreign exchange forwards	0	11	0	11	0	59	0	59
Total financial assets	116 130	7 608	298	124 036	39 207	7 649	298	47 154
Financial liabilities at fair value through profit and loss								
Interest rate swaps and foreign exchange	0	20	0	20	0	11	0	11
Total financial liabilities	0	20	0	20	0	11	0	11

*Shares and fund units include the Group companies' AS LHV Varahaldus investment into pension fund units in the amount of EUR 7 597 (31.12.2018: 7 590) thousand. Pursuant to the Investment Funds Act, the mandatory shares of LHV Varahaldus as the management company is 0.5% of the number of units in each of the mandatory pension fund managed by it.

Hierarchy levels:

1. Level 1 – the price quoted on active market
2. Level 2 – a technique which uses market information as input (rates and interest curves of arms-length transactions)
3. Level 3 – other methods (e.g. discounted cash flow method) with estimations as input

Bid price has been used to assess the fair value of the bond portfolio and net asset value of the fund units has been used as

the basis for shares and fund units valuation. LHV Varahaldus pension fund units are considered as level 2, as there is no active market.

Interest rate swaps are instruments, where the fair value is determined via the model-based approach by using the inputs available on the active market. The fair value of such non-market derivatives is calculated as a theoretical net present value (NPV), by using independent market parameters and without assuming

the presence of any risks or uncertainties. The NPV is discounted by using the risk-free profitability rate available on the market.

As at 30.09.2019 the fair value of corporate loans and overdraft is EUR 10 989 thousand (1,23%) higher than their carrying amount (31.12.2018: 319 thousand, 0.05% lower). Loans are issued in the bank's business segments on market conditions. Therefore, the fair value of retail loans does not materially differ from their carrying amount as at 30 September 2019 and 31 December 2018. In determining the fair value of loans, considerable management judgements are used (discounted cash flow method with current market interest is used for the valuation). Loans issued are thus categorised under hierarchy level 3.

Lease interest rates offered to customers generally correspond to interest rates prevailing in the market for such products. Considering that the interest rate environment has been relatively stable since the Group started to provide leasing, consequently the fair value of lease agreements does not materially differ from their carrying amount. As significant management judgment is required to determine fair value, leases are classified as level 3 in the fair value hierarchy. Leveraged loans, hire-purchase and credit cards granted to customers are of sufficiently short-term nature and they have been issued at market terms, therefore the fair market rate of interest and also the fair value of loans do not change significantly during the loan term. The effective interest rate of consumer loans issued is at the same level as the interest rate of the loan product offered in the market and it can be stated that the carrying amount of loans does not significantly differ from their fair value. The fair value level of leveraged loans,

hirepurchase, credit cards and consumer loans is 3 as significant judgmental assumptions are used for the valuation process.

Other receivables from customers, along with accrued expenses and other current receivables have been generated in the course of ordinary business and are subject to payment over a short period of time. Their fair value does not thus differ from the carrying amount. These receivables and payables do not bear any interest. The fair value of accounts payable, accrued expenses and other payables is determined based on hierarchy level 2.

Customer deposits with fixed interest rates are mostly short-term with the deposits priced pursuant to market conditions. The majority of the customer deposits include demand deposits. The fair value of the deposits determined via discounting future cash flows does not thus materially differ from the carrying amount. In determining the fair value of customer deposits, considerable management judgements are used. Customer deposits are thus categorised under hierarchy level 2.

During the reporting year subordinated loans in the amount of EUR 40 000 thousand were received. From all the subordinated loans received EUR 20 000 thousand were received in November 2018 and EUR 15 000 thousand were received in October 2015. Subordinated loans were issued on market terms and considering the movements in loan and interest market, we can say that the market conditions are similar as they were when issuing the subordinated loans so that the fair value of the loans does not materially differ from their carrying value. In determining the fair value of loans, considerable management judgements are used. Subordinated debt are thus categorised under hierarchy level 3.

NOTE 8 Breakdown of Loan Portfolio by Economic Sectors

	30.09.2019	%	31.12.2018	%
Individuals	310 189	25.1%	214 702	23.1%
Real estate activities	323 358	26.2%	246 930	26.6%
Manufacturing	132 783	10.8%	98 073	10.6%
Arts and entertainment	40 041	3.2%	34 582	3.7%
Financial activities	71 574	5.8%	95 697	10.3%
Wholesale and retail trade	58 423	4.7%	24 378	2.6%
Administrative and support service activities	68 310	5.5%	39 808	4.3%
Transportation and storage	11 036	0.9%	11 076	1.2%
Agriculture	52 030	4.2%	20 231	2.2%
Other service activities	7 043	0.6%	25 669	2.8%
Construction	57 130	4.6%	35 808	3.9%
Information and communication	4 420	0.4%	4 115	0.4%
Professional, scientific and technical activities	47 059	3.8%	18 779	2.0%
Education	2 142	0.2%	2 391	0.3%
Other sectors	48 088	3.9%	56 798	6.1%
Total	1 233 626	100%	929 037	100%
Impairment	-11 562		-10 276	
Total loan portfolio	1 222 064	100%	918 761	100%

NOTE 9 Net Interest Income

Interest income	Q3 2019	9M 2019	Q3 2018	9M 2018
From balances with credit institutions and investment	84	236	45	103
From debt securities	126	262	32	105
Leasing	1 101	2 410	543	1 841
Leverage loans and lending of securities	112	327	111	353
Consumer loans	1 916	5 170	1 377	3 820
Hire purchase	972	2 968	999	3 026
Corporate loans	9 533	26 308	7 073	19 905
Credit card loans	205	604	194	568
Mortgage loans	1 118	2 755	481	1 180
Other loans	862	2 166	500	2 524
Total	16 029	43 206	11 355	33 425
Interest expense				
Deposits of customers and loans received	-1 993	-3 495	-483	-1 285
Balances with the central bank	-1 245	-2 652	-886	-2 682
Subordinated liabilities	-1 190	-2 376	-532	-1 597
including loans between related parties	-90	-183	-88	-264
Total	-4 428	-8 523	-1 901	- 5 564
Net interest income	11 546	34 118	9 454	27 861
Interest income on loans by customer location (interest on bank balances and bonds excluded):	Q3 2019	9M 2019	Q3 2018	9M 2018
Estonia	15 819	42 708	11 278	32 694
Lithuania	0	0	0	523
Total	15 819	42 708	11 278	33 217

NOTE 10 Net Fee and Commission Income

Fee and commission income	Q3 2019	9M 2019	Q3 2018	9M 2018
Security brokerage and commissions paid	604	1 911	597	3 152
Asset management and similar fees	4 080	12 578	4 136	12 141
Currency exchange fees conversion revenues	586	1 429	449	1 111
Fees from cards and payments	3 397	8 815	2 406	6 354
Other fee and commission income	778	2 302	587	1 708
Total	9 445	27 035	8 175	24 466
Fee and commission expense				
Security brokerage and commissions paid	-113	-357	-142	-417
Expenses related to cards	-1 026	-2 735	-699	-1 911
Expenses related to acquiring	-1 138	-2 907	-759	-2 014
Other fee and commission expense	-755	-1 786	-428	-1 172
Total	-3 032	-7 785	-2 028	-5 514
Net fee and commission income	6 413	19 250	6 147	18 952
Fee and commission income by customer location:	Q3 2019	9M 2019	Q3 2018	9M 2018
Estonia	9 445	26 987	8 138	24 337
Luxembourg	0	48	37	129
Total	9 445	27 035	8 175	24 466

NOTE 11 Operating Expenses

	Q3 2019	9M 2019	Q3 2018	9M 2018
Wages, salaries and bonuses	3 472	10 812	2 865	8 827
Social security and other taxes*	1 123	3 218	914	2 636
Total personnel expenses	4 595	14 030	3 779	11 463
IT expenses	655	1 952	565	1 572
Information services and bank services	205	623	141	452
Marketing expenses	471	1 647	522	1 424
Office expenses	148	449	134	422
Transportation and communication expenses	86	203	54	159
Staff training and business trip expenses	126	511	151	464
Other outsourced services	835	2 415	780	2 356
Other administrative expenses	1 036	2 499	653	1 790
Depreciation of non-current assets	1 051	3 040	777	2 199
Operational lease payments	81	234	295	872
Other operating expenses	111	304	80	198
Total other operating expenses	4 805	13 877	4 152	11 908
Total operating expenses	9 400	27 907	7 931	23 371

*lump-sum payment of social, health and other insurances

NOTE 12 Discontinued operations

	Q3 2019	9M 2019	Q3 2018	9M 2018
Other financial income	0	0	0	2 949
Net interest income	0	0	0	1 619
Net fee and commission income	0	0	0	956
Personnel expenses	0	0	0	-535
Operating expenses	0	0	0	-1 131
Impairment losses on loans	0	0	0	-390
Income tax expenses	0	0	0	-144
Net profit from discontinued operations	0	0	0	3 324

NOTE 13 Balances with the Central Bank, Credit Institutions and Investment Companies

	30.09.2019	31.12.2018
Demand and term deposits with maturity less than 3 months*	50 335	42 796
Statutory reserve capital with the central bank	25 494	14 280
Demand deposit from central bank*	1 392 661	625 582
Total	1 468 510	682 658

*Cash and cash equivalents in the Statement of Cash Flows

1 443 016 668 378

The breakdown of receivables by countries has been presented in Note 4. Demand deposits include receivables from investment companies in the total amount of EUR 17 118 thousand (31 December 2018: EUR 17 005 thousand). All other demand and

term deposits are held with credit institutions and the central bank. The minimum reserve requirement as at 30 September 2019 was 1% (31 December 2018: 1%) of all financial resources (customer deposits and loans received). The reserve requirement is to be

fulfilled as a monthly average in euros or in the foreign financial assets approved by the central bank.

The material changes in the balances of term and demand deposits are described in more detail in management report.

NOTE 14 Deposits of Customers and Loans Received

Deposits/loans by type	Financial				30.09.2019
	Individuals	intermediates	Legal entities	Public sector	
Demand deposits	498 296	419 044	1 068 712	19 174	2 005 226
Term deposits	424 613	0	100 146	2 900	527 659
Loans received	0	0	28 586	0	28 586
Accrued interest liability	1 629	0	206	2	1 837
Total	924 538	419 044	1 197 650	22 076	2 563 308

Deposits/loans by type	Financial				31.12.2018
	Individuals	intermediates	Legal entities	Public sector	
Demand deposits	374 491	193 893	727 803	7 935	1 304 122
Term deposits	57 605	0	54 456	5 734	117 795
Loans received	0	0	21 528	0	21 528
Accrued interest liability	197	0	131	9	337
Total	432 293	193 893	803 918	13 678	1 443 782

LHV Pank signed an unsecured 10-year loan agreement with the European Investment Fund (EIF) in the amount of EUR 12.5 million to increase the borrowing possibilities of small and medium-sized enterprises. As at 30.09.2019, the Bank had utilized 12 250 thousand euros of the loan amount and repaid the principal in the amount of EUR 1 442 thousand euros. From

Nordic Investment Bank possible 20 000 thousand euro loan the Bank had utilized 20 000 thousand euros as of 30.09.2019 and repaid the principal in the amount of EUR 2 222 thousand euros. The nominal interest rate of the deposits of customers and loans granted equals to their effective interest rate, as no other significant fees have been implemented.

NOTE 15 Accounts payable and other liabilities

Financial liabilities	30.09.2019	31.12.2018
Trade payables and payables to merchants	2 490	2 153
Other short-term financial liabilities	6 222	1 925
Accrued interest on subordinated loans	347	314
Payments in transit	27 249	16 800
Financial guarantee contracts issued	230	236
Subtotal	36 538	21 428
Performance guarantee contracts issued	262	243
Tax liabilities	907	1 218
Payables to employees	1 612	1 488
Other short-term liabilities	186	276
Subtotal	2 967	3 216
Total	39 505	24 644

Payables to employees consist of unpaid salaries; bonus accruals and vacation pay accrual for the reporting period and the increase in liabilities is caused by the increase in the number of employees during the year. Payments in transit consist of foreign payments

and payables to customers related to intermediation of securities transactions. All liabilities, except for financial guarantees, are payable within 12 months and are therefore recognised as current liabilities.

NOTE 16 Contingent Liabilities

Irrevocable transactions	Performance guarantees	Financial guarantees	Letter of credit	Unused loan commitments	Total
Liability in the contractual amount as at 30 September 2019	11 631	12 733	9	302 422	326 795
Liability in the contractual amount as at 31 December 2018	11 927	9 314	55	188 841	210 137

NOTE 17 Basic Earnings and Diluted Earnings Per Share

In order to calculate basic earnings per share, net profit attributable to owners of the parent has been divided by the weighted average number of shares issued. The dilution effect when calculating the Diluted earnings per share comes from the share options granted to management and key employees.

	Q3 2019	9M 2019	Q3 2018	9M 2018
Total profit (incl. discontinued operations) attributable to owners of the parent (EUR thousand)	7 290	19 078	5 715	19 189
Total profit attributable to owners of the parent from continuing operations (EUR thousand)	7 290	19 078	5 715	15 865
Weighted average number of shares (in thousands of units)	27 235	26 829	25 892	25 809
Basic earnings per share (EUR)	0.27	0.71	0.22	0.74
Basic earnings per share from continuing operations (EUR)	0.27	0.71	0.22	0.61
Basic earnings per share from discontinued operations (EUR)	0.00	0.00	0.00	0.13
Weighted average number of shares used for calculating the diluted earnings per shares (in thousands of units)	27 828	27 421	26 409	26 295
Diluted earnings per share (EUR)	0.26	0.70	0.22	0.73
Diluted earnings per share (EUR) from continuing operations	0.26	0.70	0.22	0.61
Diluted earnings per share (EUR) from discontinued operations	0.00	0.00	0.00	0.12

NOTE 18 Capital Management

The goal of the Group's capital management is to:

- ✓ ensure continuity of the Group's business and ability to generate return for its shareholders;
- ✓ maintain a strong capital base supporting the development of business;
- ✓ comply with capital requirements as established by supervision authorities.

The amount of capital that the Group managed as of 30.09.2019 was 236 272 thousand euros (31.12.2018: 183 250 thousand euros). The goals of the Group's capital management are set based on both the regulative requirements and additional internal buffer.

The Group follows the general principles in its capital management:

- The Group must be adequately capitalized at all times, ensuring the necessary capital to ensure economic preservation and enables financing of new profitable growth opportunities;
- The main focus of the capital management is on tier 1 own funds, because only tier 1 own funds can absorb losses. All other capital layers in use are dependent of tier 1 own funds volume;
- Capital of the Group can be divided in two: 1) regulative minimum capital and 2) capital buffer held by the Group. In order to reach its long-term economic goals the Group must on one hand strive towards proportional lowering of the regulative minimum capital (through minimizing risks and high transparency). On the other hand, the Group must strive towards sufficient and conservative capital reserve, which will ensure economic preservation even in the event of severe negative risk scenario;
- The risk appetite set by the Group is an important input to capital management planning and capital goal setting. Higher risk appetite requires maintaining higher capital buffer.

Capital base	30.09.2019	31.12.2018
Paid-in share capital	28 454	26 016
Share premium	70 228	46 653
Reserves	4 713	3 451
Other reserves	78	78
Accumulated loss	69 431	50 193
Intangible assets (subtracted)	-18 852	-19 084
Profit for the reporting period	7 336	25 237
Other adjustments	-116	-194
Total Core Tier 1 capital	161 272	132 350
Additional Tier 1 capital	20 000	0
Total Tier 1 capital	181 272	0
Subordinated liabilities	55 000	50 900
Total Tier 2 capital	55 000	50 900
Total net own funds	236 272	183 250

The Group has complied with all capital requirements during the financial year and in previous year.

NOTE 19 Transactions with related parties

In preparing the financial statements of the Group, the following entities have been considered related parties:

- owners that have significant impact on the Group and the entities related to them;
- members of the management board and legal entities controlled by them (together referred to as management);
- members of the supervisory board;
- close relatives of the persons mentioned above and the entities related to them.

Transactions	Q3 2019	9M 2019	Q3 2018	9M 2018
Interest income	16	50	17	47
incl. management	10	28	6	22
incl. shareholders that have significant influence	6	22	11	25
Fee and commission income	10	20	4	8
Incl. management	0	0	2	2
incl. shareholders that have significant influence	10	20	2	6
Interest expenses from deposits	10	30	11	29
incl. management	0	0	3	5
incl. shareholders that have significant influence	10	30	8	24
Interest expenses from subordinated loans	90	283	88	264
incl. management	2	6	1	5
incl. shareholders that have significant influence	88	277	87	259
Balances		30.09.2019		31.12.2018
Loans and receivables as at the year-end		3 230		3 328
incl. management		2 329		2 079
incl. shareholders that have significant influence		901		1 250
Deposits as at the year-end		17 050		33 509
incl. management		361		222
incl. shareholders that have significant influence		16 689		33 287
Subordinated loans as at the year-end		5 079		5 904
incl. management		168		135
incl. shareholders that have significant influence		4 911		5 769

The table provides an overview of the material balances and transactions involving related parties. All other transactions involving the close relatives and the entities related to members of the management board and supervisory board and the minority shareholders of the parent company AS LHV Group have occurred according to the overall price list. The management and shareholders with significant influence include also their related entities and persons.

Loans granted to related parties are issued at market conditions.

In Q3, salaries and other compensations paid to the management of the parent AS LHV Group and its subsidiaries totalled EUR 400 thousand (Q3 2018: EUR 357 thousand), including all taxes. As at 30.09.2019, remuneration for September and accrued holiday pay in the amount of EUR 100 thousand (31.12.2018: EUR 91 thousand) is reported as a payable to management. The Group

did not have any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 30.09.2019 and 31.12.2018 (pension liabilities, termination benefits, etc.). In Q3 2019, the remuneration paid to the members of the Group's Supervisory Board totalled EUR 20 thousand (Q3 2018: EUR 10 thousand).

Management is related to the share-based compensation plan. In Q3 2019 the share-based compensation to management amounted to EUR 168 thousand (Q3 2018: EUR 118 thousand). The Group has signed contracts with the members of the Management Board, which do not provide for severance benefits upon termination of the contract. In any matters not regulated by the contract, the parties adhere to the procedure specified in the legislation of the Republic of Estonia.

NOTE 20 Tangible and intangible assets

<i>(in thousands of euros)</i>	Tangible assets	Right of use assets	Total tangible assets	Intangible assets	Costs incurred for the acquisition of customer contracts	Total intangible assets
Balance as at 31.12.2017						
Cost	4 078	0	4 078	8 058	10 618	18 676
Accumulated depreciation and amortisation	-2 657	0	-2657	-3 731	0	-3 731
Carrying amount 31.12.2017	1 421	0	1 421	4 327	10 618	14 945
Purchase of non-current assets	396	0	396	1 236	0	1 236
Capitalized selling costs	0	0	0	0	1 818	1 818
Write-off of non-current assets	-5	0	-5	0	0	0
Depreciation/amortisation charge	-510	0	-510	-1 031	- 1431	-2 462
Assets of discontinued operations	340	0	340	371	0	371
Amortisation of discontinued operations	-168	0	-168	-304	0	-304
Balance as at 31.12.2018						
Cost	4 129	0	4 129	15 324	12 436	27 760
Accumulated depreciation and amortisation	-2 994	0	-2 994	-10 859	-1 431	12 290
Carrying amount 31.12.2018	1 135	0	1 135	4 465	11 005	15 470
Changes in accounting policies	0	4 042	4 042	0	0	4 042
Purchase of non-current assets	1 004	500	1 504	628	1 122	1 750
Depreciation/amortisation charge	-404	-654	-1 058	-888	- 1 094	-1 982
Balance as at 30.09.2019						
Cost	5 134	4 542	9 676	15 952	13 558	29 510
Accumulated depreciation and amortisation	-3 399	-654	-4 053	-11 747	-2 525	-14 272
Carrying amount 30.09.2019	1 735	3 888	5 623	4 205	11 033	15 238

NOTE 21 Subordinated debts

Subordinated debts (in thousands of euros)

	Year of issue	Amount	Interest rate	Maturity date
	2015	15 000	6.5%	October 29, 2025
	2018	20 000	6.0%	November 28, 2028
	2019	20 000	6.0%	November 28, 2028
	2019	20 000	8.0%	Perpetual
Subordinated debt as at 30.06.2018		30 900		
Subordinated debt as at 31.12.2018		50 900		
Subordinated debt as at 30.06.2019		75 000		

NOTE 22 Loans and advances to customers

<i>(in thousands of euros)</i>	30.09.2019	31.12.2018
Loans to legal entities	923 473	714 335
incl. corporate loans	772 478	624 425
incl. retail loans	27 121	16 200
incl. leasing	61 415	44 277
incl. overdraft	52 909	23 846
incl. leveraged loans	2 490	1 997
incl. hire-purchase	295	249
incl. credit card loans	380	274
incl. credit letters	6 385	3 067
Loans to individuals	310 153	214 702
incl. hire-purchase	15 556	17 501
incl. mortgage loans	178 417	101 009
incl. consumer loans	46 434	33 989
incl. private loans	39 813	37 884
incl. leasing	20 710	15 888
incl. leveraged loans	2 129	1 733
incl. credit card loans	6 881	6 579
incl. overdraft	1	43
incl. study loan	212	76
Total	1 233 626	929 037
Impairment provisions	-11 562	-10 276
Total	1 222 064	918 761

Changes in impairments in 6M 2019	Corpo- rate loans	Retail loans	Consumer loans	Credit cards	Hire- pur- chase	Leasing	Leveraged loans	Other loans incl. mortgage	Credit letters	Total
	incl. overdraft									
Balance as at 1 January	-8 751	-184	-568	-27	-140	-467	-3	-36	-100	-10 276
Impairment provisions/reversals set up during the year	-1 013	-138	-49	-20	37	-156	-2	-33	88	-1 286
Written off during the reporting period	0	0	0	0	0	0	0	0	0	0
Balance as at September 30 2019	-9 764	-322	-617	-47	-103	-623	-5	-69	-12	-11 562

Shareholders of AS LHV Group

AS LHV Group has a total of 28 454 079 ordinary shares, with a nominal value of 1 euro.

As at 30 September 2019, AS LHV Group has 6 677 shareholders:

- 14 269 207 shares (50.15%) were held by members of the Supervisory Board and Management Board, and related parties.
- 14 184 872 shares (49.85%) were held by Estonian entrepreneurs and investors, and related parties.

Top ten shareholders as at 30 September 2019:

Number of	Participation	Name of shareholder
3 618 920	12.7%	AS Lõhmus Holdings
2 538 367	8.9%	Rain Lõhmus
2 147 289	7.6%	Viisemann Investments AG
1 728 589	6.1%	Ambient Sound Investments OÜ
1 210 215	4.3%	OÜ Krenno
1 082 744	3.8%	AS Genteel
1 031 310	3.6%	AS Amalfi
782 488	2.8%	OÜ Kristobal
688 199	2.4%	SIA Krugmans
638 276	2.2%	OÜ Bonaares

Shares held by members of the Management Board and Supervisory Board

Madis Toomsalu holds 34 940 shares.

Rain Lõhmus holds 2 538 367 shares, AS Lõhmus Holdings 3 618 920 shares and OÜ Merona Systems 581 718 shares.

Andres Viisemann holds 18 082 shares. Viisemann Holdings OÜ holds 609 143 shares and Viisemann Investment AG holds 2 147 289 shares.

Tauno Tats does not hold shares. Ambient Sound Investments OÜ holds 1 728 589 shares.

Tiina Mõis does not hold shares. AS Genteel holds 1 082 744 shares.

Heldur Meerits does not hold shares. AS Amalfi holds 1 031 310 shares.

Raivo Hein does not hold shares. OÜ Kakssada Kakskümmend Volti holds 501 709 shares, Astrum OÜ holds 271 shares and Lame Maakera OÜ holds 13 976 shares.

Sten Tamkivi holds 391 shares. OÜ Seikatsu holds 15 143 shares.

Supervisory Boards and Management Boards of AS LHV Group and its Subsidiaries

AS LHV Group

Supervisory board: Raivo Hein, Rain Lõhmus, Heldur Meerits, Tiina Mõis, Tauno Tats, Andres Viisemann, Sten Tamkivi

Management board: Madis Toomsalu

AS LHV Varahaldus

Supervisory board: Erki Kilu, Madis Toomsalu, Andres Viisemann

Management board: Vahur Vallistu, Joel Kukemelk

AS LHV Pank

Supervisory board: Raivo Hein, Rain Lõhmus, Heldur Meerits, Tiina Mõis, Madis Toomsalu, Andres Viisemann

Management board: Jüri Heero, Erki Kilu, Andres Kitter, Meelis Paakspuu, Indrek Nuume, Martti Singi, Kadri Kiisel

AS LHV Finance

Supervisory board: Erki Kilu, Rain Lõhmus, Veiko Poolgas, Jaan Koppel

Management board: Kadri Kiisel

OÜ Cuber Tehnology

Management board: Jüri Laur

Signatures of the Management Board to the Condensed Consolidated Interim Report

The Management Board has prepared the summary of results for January to September 2019 period the condensed consolidated interim financial statements of AS LHV Group for the 9-month period ended 30 September 2019.

The management board confirms that according to their best knowledge the interim report presents a fair view of LHV Group AS's assets, liabilities, financial position and profit or loss of the issuer and the entities involved in the consolidation as a whole and contains a description of the main risks and doubts. The Condensed Consolidated Interim Financial Statements have been prepared according to the principles of the International Accounting Standard IAS 34 "Interim Financial Reporting".

14.10.2019

Madis Toomsalu